

US panel urges more oversight of China investment

November 14 2012, by Matthew Pennington

A congressional advisory panel on Wednesday urged tighter screening of investment by Chinese state-owned companies in the U.S., saying they present unfair competition to American firms.

That's the primary recommendation of an annual report by the U.S.-China Economic and Security Review Commission. The panel advises Congress on the national security implications of the relationship between the world's two biggest economies.

It is proposing that Congress broaden the mandate of a committee chaired by Treasury Secretary Timothy Geithner that screens foreign investment proposals.

China already accuses the U.S. of discriminating against its companies, although analysts say American firms face bigger obstructions investing in China. Chinese investment in the U.S. is still comparatively low but has risen sharply in recent years and is set to hit record levels in 2012.

"Growing Chinese investment may offer an important new source for U.S. job creation and economic growth, but it is too early to know whether the benefits will outweigh whatever longer-term [economic costs](#) Chinese state-owned and state-directed investments may bring," the commission said.

Its report said that despite three decades of economic reform in China, state-controlled enterprises still account for as much as half of the

Chinese economy, and their role has been enhanced by a \$585 billion government stimulus program during the 2008 slowdown.

The enterprises benefit from preferential financing from China's state-dominated banks; cheap land, fuel and electricity; regulatory exemptions, and tax preferences, the commission said.

The commission proposed that Congress examine Chinese investment and assess whether to widen the mandate of the Committee on Foreign Investment in the United States so it would be required to screen transactions by Chinese state companies that give them a majority stake in American companies.

Currently the committee screens investment proposals only on national security grounds.

The commission also proposed prohibiting investment in a U.S. industry by a foreign company whose government prohibits foreign [investment](#) in that same industry. That's a response to what it described as the exclusion of American firms from investing in sectors dominated by state-controlled firms in China, such as telecommunications services and oil and natural gas.

The wide-ranging report also assessed China's military and cyber capabilities.

It recommended that Congress conduct an in-depth assessment into Chinese cyber espionage practices. It said state-sponsored actors continue to exploit U.S. government, military, industrial and non-governmental computer systems and that "Chinese exploitation capabilities are improving significantly."

China is also advancing its military modernization efforts, with the

development of advanced fighter jets, and space and ballistic missile programs, the report said, a strategy it views as aimed at restricting the ability of U.S. forces to operate in the vicinity of China, particularly in the event of a conflict over the self-governing island of Taiwan.

The report also noted significant improvements in China's nuclear forces and said that within two years it will perhaps have attained three ways of delivering such weapons—by bombs, land-based missiles and submarine-launched ballistic missiles. It voiced concern over "occasional disconnects" between China's civil and military leadership, introducing uncertainty about China's command authority of its nuclear weapons.

In Beijing, the Chinese Foreign Ministry accused the commission of "indulging in cold war mentality."

"We hope they will stop their prejudice, respect facts and stop interfering in China's internal affairs and hurting China-U.S. relations," said Foreign Ministry spokesman Hong Lei at a regular briefing Wednesday.

On the subject of cyber security, Hong said that "China is firmly opposed to cyber attacks and has enacted laws on this issue."

"China believes the issue should be dealt with by cooperation on an equal footing. In fact, China and the U.S. have already started cooperation in cyber security," Hong said, adding that the report "does not help" that cooperation.

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